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"China Model - Characteristics, limitations & outcomes"

by Laurent Dorey

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Professor Yihong YU

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Abstract:

The "Chinese model", "Beijing Consensus", "Chinese economic miracle", "Chinese Development model", or "Chinese growth model" are many names aimed at garnering key elements synthetizing the path to growth China had been following, since 1978 and its opening to the foreign investments and outside world.

The uniqueness of its "combined model" should be seen in the way that it had differentiated itself from the "Stalinist model", not to blindly imitate it but to adapt it to the Chinese conditions. Adopting in the process a M-Form economic administration structure, it has featured a mix of "pragmatism", "neutral or disinterested government", "gradualism" and "regime stability", with highly variable management standards.

It is today, common assessment that economic reforms came at the cost of increasing inequalities, fragmenting society, and escalating conflicts between state cadres and the masses. China has carried out economic reform without political reform, and thus its state administrative system is still under tight political control with leading cadres in empowerment and state cadres in monopoly of public decision-making. Inevitably, corruption and rent-seeking became popular practices. China had indeed developed economically, while stalling politically.

Resources (whether financial, political, human, knowledge-based) to go beyond the current model are available, or within easy reach, allowing to capitalize further on the strengths of the country from the inside (e.g. geographical and economical levelling, increase in overall local consumption, implementing of a more "welfare" oriented State), as well as from the outside, with Contemporary Diasporic Entrepreneurship (CDE) emerging from this particular historical context, with market driven (innovative rich) initiatives led by this potentially huge global demand.

As such, the Chinese model has a unique capability of reinventing itself, once more, while capitalizing on its unique track record of the past 30 years.

China Model

The "Chinese model"[1], "Beijing Consensus"[2], "Chinese economic miracle", "Chinese Development model", or "Chinese growth model" are many names aimed at garnering key elements synthetizing the path to growth China had been following since 1978 and its opening to the foreign investments and outside world. However, the China model "does not have universally recognized documents and its content is still under debate[3] leading to the lack of a unified and clear understanding of what the 'Chinese model' of development is", as underlined by Suzuki (2009), to which Breslin (2011) adds that "to talk of a single Chinese model misses the huge variety - the different models - of economic structures within China".

However, as also stated by Breslin (2011), "by the end of 2009 there seemed to be a general feeling within China that it was returning to its rightful place of centrality in the global order, and that its developmental model had been vindicated", further comforting the idea that "China is on a trajectory to regain its traditional regional hegemony, and perhaps superpower status" (Grainger & Chatterjee, 2007).

Having said that, key economic figures speak themselves about the high level of sustained growth China had pursued along the years and the weight and role China is today playing into the world economy. Further to it, in its development path, China had been able to gather a "following" among other emerging countries (e.g. Africa, Latin America, other parts of Asia), whether among the BRICs [4] or not, and its trajectory has often been assessed under the scope of "an alternative" to the "Washington consensus"[5]. The uniqueness of its "combined

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[1] *"Chinese model" (The Economist): "a managed exchange rate, state control over key industries including the banking system, preference for diktat rather than democratic debate, heavy state investment in infrastructure and strong support for the export sector"…. "the China model has another possible component: a belief that other countries should follow it or not as they please"*. Retrieved June 14, 2014 from http://www.economist.com/debate/overview/179.

[2] *Li et al. (2009): "In 2004, a British think tank the Foreign Policy Centre published "The Beijing Consensus"; the author Joshua Cooper Ramo, a former editor of Time magazine, argues that China's rise is remaking the international order and what is happening in China is not only a model for China, but a path for other nations around the world. At the heart of his conceptualization of the Beijing Consensus, which Ramo claimed replaces the widely discredited Washington Consensus, are three theorems: first, innovation-based development; second, giving sustainability and equality priority; third, self-determination in international relations."*

[3] See 'The ''Washington Consensus'' and ''Beijing Consensus''', People's Daily Online. Retrieved June 14, 2014 from http://english.peopledaily.com.cn/200506/18/print20050618_190947.html

[4] *An acronym for the combined economies of Brazil, Russia, India, China and South Africa. BRIC, without South Africa, was originally coined in 2003 by Goldman Sachs, which speculates that by 2050 these four economies will be the most dominant. South Africa was added to the list on April 13, 2011 creating "BRICS".* Retrieved June 14, 2014 from http://www.investopedia.com/terms/b/brics.asp

[5] *The term Washington consensus was coined by John Williamson (1990) to encapsulate the set of policy reforms advocated with a reasonable degree of consensus by international financial institutions, the U.S. government, the Federal Reserve Board, and the leading think tanks based in Washington.* Retrieved June 14, 2014 from http://press.princeton.edu/chapters/reinert/13article_lora_washington.pdf

model" should be seen in the way that it had differentiated itself from the "Stalinist model", "not to blindly imitate it but to adapt it to the Chinese conditions"[6]. Adopting in the process a M-Form[7] economic administration structure, it has featured a mix of "pragmatism", "neutral or disinterested government", "gradualism" and "regime stability" (Breslin, 2011), while amalgamating (confusedly) "foreign-owned companies, privately- owned (Chinese) companies, former state enterprises, extant state enterprises, all operating in an essentially free market economic system, dominated by a totalitarian state, and without a properly enforced commercial legal framework" (Grainger & Chatterjee, 2007), with highly variable management standards.

All in all, even though confusing at time, and differing today from its original setup, the model pursued by the Chinese reformers, was aimed at avoiding a "shock therapy" (as witnessed in Eastern European and former Soviet Union countries (EEFSU) in the 1990s), while "building a socialist market economy with Chinese characteristics". Chen Yun, at that time second most important leader in China (only next to Deng Xiaoping during the 1980s and 1990s), used the metaphor of the "bird cage" to describe the desired relationship between plan and market in Chinese economic development trajectory (as cited by Brødsgaard, 1991). Chen Yun assessing that "the plan is the cage and the market the bird in the cage. If the cage is too tight the bird cannot move and will eventually suffocate. If there is no cage the bird will fly away".

Limitations

It is today, common assessment that economic reforms came at the cost of "increasing inequalities, fragmenting society, and escalating conflicts between state cadres and the masses. China has carried out economic reform without political reform, and thus its state administrative system is still under tight political control with leading cadres in empowerment and state cadres in monopoly of public decision-making. Inevitably, corruption and rent-seeking became popular practices" (Chow & Luo, 2006). China had developed economically, while stalling politically (in the quest for "stability"), which had led to "unchecked absolute

[6] "*The Ten Great Relationships*" Mao Zedong, 1956. Retrieved June 14, 2014 from http://www.marxists.org/reference/archive/mao/selected-works/volume-5/mswv5_51.htm

[7] *M-form and U-form are concepts of organization theory. In M-form organizations, there are multiple autonomous divisions and the headquarters does not interfere much in the decision making of individual divisions. In a U-form organization, the general manager exerts tight control through different functions, like finance, sales, operations, etc. (Li et al., 2009).*

power", vested in bureaucracy, and "rent seeking" in every public organization. As stated by Zhou (2009), "corruption corrodes the process of further (political) reform, by dissolving public support, and finally, it can bring reforms to an end". While cadres may act to protect or advance their danwei's[8] interests, thus promoting factionalism[9] in corruption or malperformance, it confronts the Communist Party of China (CPC) leadership, since the establishment of the People's Republic was factionalism.

It is also common knowledge to assess that what was once one of the most equalitarian and harmonious (Confucian) country in the world, is today ground for huge disparity among its people, having seen an income gap widening in the path of the economic reforms and ensuing growth ("wealth is glorious"). China's GINI[10] index of 42.1 (2009), ranks China among the first 21 un-equalitarian countries in the world. According to Chaudhuri and Ravallion (2006), "the unevenness of Chinese growth has at least three characteristics: Unevenness across households, with the incomes of the richest households growing much faster than those at the bottom of the income distribution, unevenness across provinces with the inland provinces lagging behind the coastal provinces and unevenness across sectors, with the primary sector (agriculture) lagging behind the secondary (industrial) and tertiary (service) sectors and the rural areas lagging behind the urban areas". It is indeed utterly known that as a consequence, China is "a rich country, with a poor population".

On the private business and economic side, the benefits of the country's rapid growth and its ensuing polarization, with the "vertically integrated nature of its export", have led to uneven (geography and population wise) repartition of the distribution of its wealth. A huge unbalance between its rural and urban infrastructure has grown, within an incoherent political (legal) frame, distancing itself further from an (hoped for) economic equilibrium, despite the (late) "harmonious society campaign" of 2004-2005. Redding (2002) suggesting that (to counter balance that issue) "networks in China act as a guide to the regulation of transactions in the absence of a well-defined legal structure and state institutions". Failure to develop a coherent legal system alongside economic reforms over the past 30 years or so has "contributed

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[8] Noun: *a unit of measurement for work*. Retrieved June 14, 2014 from http://www.thefreedictionary.com/Danwei

[9] Noun: *A group of persons forming a cohesive, usually contentious minority within a larger group*. Retrieved June 14, 2014 from http://www.thefreedictionary.com/factionalism

[10] *The Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.* Retrieved June 14, 2014 from http://data.worldbank.org/indicator/SI.POV.GINI?order=wbapi_data_value_2009+wbapi_data_value+wbapi_data_value-first&sort=asc

to the adaptation of guanxi[11] as a coping mechanism in the new and dynamic Chinese business environment" (Chatterjee et al, 2006).

In addition to that, figures reveal that, while western China[12] is vast in territory, it is relatively under-developed at least economically. "Talented persons in western China tend to migrate to metropolitan areas in eastern China for better jobs, prospects, career development, and/or relatively modern lifestyles. Such a cross-region brain drain has had adversely affected the capacity of the region to develop socially, economically, and even politically. Another form of cross-region brain drain is the migration of more capable peasants to urban areas, leaving behind the women, children, untrained or uneducated adults, and the elderly, thus making contemporary villages in western China, just as villages in the mountain areas in central China, stagnant" (Chow & Luo, 2006). It is estimated that "approximately 225.4 million migrant workers live in cities and towns (140.4 million are long-term migrant workers living outside their own county and 85 million have migrated within their own county), as gathered by Wang et al. (2010), the equivalent of about one third of total urban population, leading to additional issues related to the "hukou"[13], migrants being often barred from formal sector employment, social services and public welfare.

While on the individual basis, "savings" (capital formation) from Chinese people of all range are among the highest in the world (assessed at about 35-40% of income), they translate into a relatively low national expenditure share of GDP, as they are mainly made in the light of the absence of certainties (e.g. deficient social, health insurance and pensions schemes, nonexistence of unemployment scheme), lack of confidence and credibility in the "un-rational" system (e.g. dramatic corruption rate, societal changes and banking system), or plain deficiencies (pollution related problems), even if part of it can be attributed to cultural factors (e.g. collectivism, uncertainty avoidance). While in the short term it allowed the State to finance its growth (current account surplus, facilitating outflow and inflow of capital),

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[11] *Relationship literally means guanxi in Chinese (Hwang, 1987). However, guanxi not only means 'relationship' but has a 'special' or 'particularistic' nature (Yang, 1994). Etymologically, guan ( ) in Chinese means gate, and xi ( ) means special connections among people who passed through the guan (gate). People going through the guan can enjoy 'one of us' relationships, but people outside the guan are excluded. It is always difficult for outsiders to pass through the gate due to the exclusiveness of guanxi networks (Wang, 2007). This applies in business as in social life.*

[12] *According to the classification of regions by the National Bureau of Statistics (NBS) of China in 2000, western China covers Chongqing, Gansu, Guizhou, Ningxia, Qinghai, Shaanxi, Sichuan, Tibet, Xinjiang, and Yunnan (10 administrative entities). Western China has 6.87 million square kilometers, that is, 71.5% of China's vast territory.* Retrieved June 14, 2014 from http://www.stats.gov.cn/english/

[13] *Hukou is a synonym of official registration in China which splits the population between rural and urban residents. It gives rural hukou holders access to land while granting social entitlements to urban hukou holders. Migrant workers being at risk of "falling in between".* Melander and Pelikanova (2013).

permitting to drain the world largest Foreign Direct Investments (FDIs), it also shows the current limit in the “seizure” of China’s huge “consumers market”. The Chinese household consumption having seen a lower share of GDP than the other “Asian tigers” during their rapid growth and accumulation phases. The difference (with e.g. Japan, Korea, Taiwan) being in the excessive proportions of the external sources of investments, and ensuing “share” of Chinese value added, assessed (Koopman et al., 2008) at 50 percent (or less) of the value of exports. Those countries were indeed much less reliant on external sources of investment and expansion of exports much less contingent on the kinds of vertically integrated international production networks that China has relied on to create an industrialized export base.

Since Western Multi-National Companies (MNCs) use technology transfer mainly to serve their need for entering foreign markets, their objectives and priorities are often inconsistent with the developmental goals of indigenous governments. China dependence on MNCs (foreign-funded companies in China representing more than 80 percent of the high value added industries) also shows the limit to the expansion of its growth model, due to the vertically integrated international production networks that China has relied on, to create an industrialized export base. The world economic turmoil witnessed since 2008 had immediately shown a negative dependency spiral from the outside world to China, which saw its export rate plummeting by 20 percent already in the first quarter of 2009, leading in its path to a 40 percent drop in manufacturing activities and a 30 percent decline in related investments. This led to an unprecedented “economic stimulus plan” worth north of USD 586 billion (that is about eight percent of China 2009 and 2010 GDP), subscribed by the State for 30 percent, and by the banking system for the rest. This showed that the “invisible hand”[14] reached its limit, and that, in accordance with Keynes’ opinion (Keynes, 1936), the State’s intervention is “legitimate in enforcing three major functions: the production or allocation of goods and services, the income’s redistribution, the economic stability” (as in most of the countries in the world), and that Chine remains an emerging country with a political control over its banking system. In that respect the Chinese growth model, which has enabled China to rely on external demand and investments to generate high growth rates, while maintaining low consumption and current account surpluses, showed its utmost limits and, “because China generally produces labor-intensive goods in sectors that face high international substitutability, standard profit

[14] *A term coined by economist Adam Smith in his 1776 book "An Inquiry into the Nature and Causes of the Wealth of Nations". The invisible hand is essentially a natural phenomenon that guides free markets and capitalism through competition for scarce resources.* Retrieved June 14, 2014 from http://www.investopedia.com/terms/i/invisiblehand.asp

maximization suggests that the markup factor would tend to be on the low side for many Chinese exports" (Razmi, 2010). It has been assessed that, for instance, measured by patent applications, "foreign direct investors are found not to be an important player in China's innovation system" (Sun, 2000).

Finally, it has been noted (Sarlea et al., 2013), that few dividends are paid by Chinese firms, on the base of "underdeveloped financial system and poor corporate governance, low access to credits of small companies, entry barriers that limit the development of services in which labor is very important. Also has to be considered the fixed exchange rate and the interest rate" and because these enterprises are not legally obligated or expected to pay out dividends, these are able to channel retained earnings into fixed investments at high rates.

Possible outcomes

Deng Xiaoping allowed some people to get rich first, aiming to let the people and regions that became rich first help the less wealthy people/regions to prosper and develop together. Encouraging some Chinese people to get rich first, in fact prepared the material basis for the new generation of Chinese leaders to take on the task of "making all Chinese prosper together" (Li et al., 2009). Yet, given the logistical barriers created by geography and the competitive nature of international markets for developing country exports, extension of the Chinese investment- and export-led growth model to the interior provinces poses a formidable challenge. "Many cadres in eastern China have excelled, are willing and eager to instrumentally perform to enhance efficiency and effectiveness. They are quite receptive to the reform efforts to rationalize the management of state organs". In contrast, "cadres in western China have generally remained unchanged. Leading cadres in the region have yet to take drastic actions to rationalize public organizations for supporting rapid economic development". As such, "State cadres in contemporary western China do resemble cadres in the coastal region a decade ago, who were then busy in promoting economic development in their jurisdictions, expressing their pragmatic preferences, and revealing their internalization of traditional values, for example, submission to authority" (Chow & Luo, 2006). Comparing the two groups of cadres, one could note their somewhat remarkably similar traces of pre- and in- transformation, envisioning the possibilities for the State to "transfer to the West" these cadres, together with the millions of "western migrants" who will then find the right structure and framework to help enhance the standards of living of the western part of China.

Parallel to that, designed incentives for having manufacturing production geared more toward domestic markets will also likely see their economical outcome being more geographically spread. “Because proximity to domestic rather than international trade nodes will become the overarching consideration” (Razmi, 2010), moves to the “west” of production means, can participate into the rebalancing. A short-term economic policy to encourage public investment from the Government could also lead to a fall in unemployment and the enhancement of the rural and urban infrastructures. Private consumption could then be stimulated through the granting of tax exemptions for owners of small and medium enterprises, promoting investment in new equipment and modernizations.

On the micro economical level, a long-term solution to be taken into consideration could be the development of the banking and financial system and to modernize the social security system in order to reduce the rate of saving, which would have a beneficial effect upon encouraging consumption which, together with the probable end of the “one-child policy”[15] may lead to an increase in overall consumers consumption. Knowing that savings are due mainly to the absence or inefficiency of fundamental “state support” (e.g. schools, pensions, unemployment fees), and that the current “one-child policy” does reduce the “sustainability” of “next of kin” support (over 50 percent of the population will be aged 50 and over by 2050. Simultaneously citizens in the 20-24 age bracket is forecast to decline from 534 million in 2000 to 408 million), any increase in “social and state welfare” will lead to the unleashing of savings which in turn will lead to further “local” and more sustainable consumptions. Even though “China has no capacity to build up a “welfare state” system” (Kang 2000), as we know it from the Scandinavian countries, and that very same idea might still be denied on the “ideological-theoretical level”, as being the product of a form of class conflict (Lin, 2001), conditions are today to be found in (forcefully) “leading” China toward a “pragmatic” social welfare orientation, more than it would initially like too, could represent in the longer run, a “socially pacifying”, yet economical, solution.

On a macro-economical plan, companies willing to efficiently penetrate the Chinese market from inside, whether MNCs or national ones, will have to go inward and aim at “cheaper yet better” innovations. Indeed, Chinese companies are starting to offer customers high technology at low cost, presenting them with an unmatched choice of products, while

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[15] “*China formally eases one-child policy*”. Retrieved June 14, 2014 from http://www.bbc.com/news/world-asia-china-25533339

companies are using their low costs to offer specialty products at dramatically lower prices, turning them into volume businesses. This new Chinese competition is challenging the notion that specialty products must forever remain low-volume and high-priced. Whether to compete for the inner consumer market, or on the worldwide market places, the trend of "transferring global mandate for running certain businesses, products, or worldwide customer segments, including strategic decision making, to China", has already started. "A few companies have already taken the step of giving their Chinese subsidiaries global responsibilities" (Williamson & Zeng, 2008).

In addition to that, and in phase with China's effective engagement with its overseas diaspora[16] community (about 50 million Chinese people reside in "Greater China"), which business networks have been shown as having played a foremost role in the economic development of East Asia in general, and China in particular, "research suggests that returning entrepreneurs may offer a better alternative to domestic firms and MNCs with regard to innovation capacity development" (Kapur, 2001). In China, returning entrepreneurs have been credited for the development or upgrade of numerous niche industries, highly skilled professionals accounting for 39.6 percent (OECD, 2005) of its overseas diaspora. Returnee-run ventures, Contemporary Diasporic Entrepreneurship (CDE), are indeed considered a formidable force against indigenous firms and MNCs in China's competitive technological frontiers. Indeed CDEs may hold an advantage in terms of identity, many MNCs often lacking trustworthiness regarding contributions to capacity development. Second to that, CDEs may be advantaged in resource endowments, with skilled migrants who likely have received further education and training in their host countries and are more likely to develop and maintain networks and partnerships with Western business communities (easier access to financial resources, new technologies, and entry to export markets as well), possessing intimate knowledge about the local environment and adequate language skills. To that, CDEs may have a favorable edge in cognitive capability associated with the process of knowledge transfer and integration across international and cultural boundaries. Finally, CDEs are more likely to be internationally oriented, "partly as a strategy to cope with the uncertainty in the domestic market and to capitalize on a deepening globalization" (Lin, 2006).

[16] *A diaspora refers to the "ethnic minority groups of migrant origins residing and acting in host countries but maintaining strong sentimental and material links with their countries of origin - their homelands"* (Sheffer, 1986).

Conclusion

Defining the Chinese Model is more challenging that it first appeared to be. Indeed one can see it through the prism of offering an alternative to the “Washington” one that is rebuking the latter in favor of a model which basically differ, and thus offer different perspectives, as in a “black against white” description, or a “socialist” (with Chinese characteristics) against “capitalist” market economy. Alternatively, one can aim at focusing on what best define the tremendous economic growth China had been through the last 30 years or so, since 1978 in fact, and see in that analysis where and how it could have been made unique (to China). Yet, the rapidly changing context of China, the so-called “information-rich but interpretation-poor paradox”, “the more we know, the less we understand”, rendered the task a bit complicated, yet highly interesting.

As such, I have chosen to focus on the fact that “pragmatism” had prevailed along the years (“It doesn't matter whether a cat is white or black, as long as it catches mice”, Deng Xiaoping), together with the “graduality” (e.g. trial and error, avoidance of shock therapy reform, special economic “test” zones) of the process, symbolized by the fact China had developed economically, while stalling politically in its quest for “stability”. The model as such had reached some limitations, accentuated by the global economic turmoil witnessed the world over, yet at a time where China is quite able to move “inward” and continue its task of “making all Chinese prosper together”.

Resources (whether financial, political, human, knowledge-based) are available, or within easy reach, allowing to capitalize further on the strengths of the country from the inside (e.g. geographical and economical levelling, increase in overall local consumption, implementing of a more “welfare-oriented” State), as well as from the outside with Contemporary Diasporic Entrepreneurship (CDE) emerging from this particular historical context, with market driven (innovative rich) initiatives, led by this potentially huge global demand.

As such, the Chinese model has a unique capability of reinventing itself, once more, while capitalizing on its unique track record of the past 30 years.

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